



STATE OF WISCONSIN
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CORRESPONDENCE MEMORANDUM

DATE: October 26, 2010

TO: Deferred Compensation Board

FROM: Robert C. Willett, CPA
Chief Trust Financial Officer

SUBJECT: Participant Fee Recommendations

Staff recommend no changes to the administrative fee paid by plan participants at this time. Fees should be reviewed again next year to assure adequate reserves are being maintained to administer the program.

Background: The Board maintains an administrative account that is used to pay the administrative expenses for the Wisconsin Deferred Compensation Program (WDC). These expenses consist primarily of the administrative services contract with Great-West Retirement Services, but also include the costs for Employee Trust Funds staff, audits and other plan expenses.

Revenues to fund administrative expenses come from participant fees, investment provider reimbursements, and investment income on the account balance. During recent years, the following revenues and expenses were recorded in the administrative account (in millions \$).

	2010 (6 months)	2009	2008	2007
January 1 Account Balance	<u>\$2,212</u>	<u>\$2,718</u>	<u>\$2,730</u>	<u>\$1,858</u>
Revenues				
Participant Fees	592	1,065	1,085	1,340
Investment Provider Reimbursements	631	988	1,325	1,811
Investment Earnings & Other	44	124	162	119
Total Revenues	<u>1,267</u>	<u>2,177</u>	<u>2,572</u>	<u>3,270</u>
Expenses				
Administrative Services Contract	1,323	2,534	2,421	2,305
DRO Fees	5	15	19	12
ETF Administration & Miscellaneous	27	134	144	81
Total Expenses	<u>1,355</u>	<u>2,683</u>	<u>2,584</u>	<u>2,398</u>
December 31 Account Balance	<u>\$2,124</u>	<u>\$2,212</u>	<u>\$2,718</u>	<u>\$2,730</u>
Account Balance as % of Projected Annual Expenses	74%	79%	101%	106%

Reviewed and approved by Jon Kranz, Director, Office of Budget and Trust

Finance

Signature

Date

10/26/10

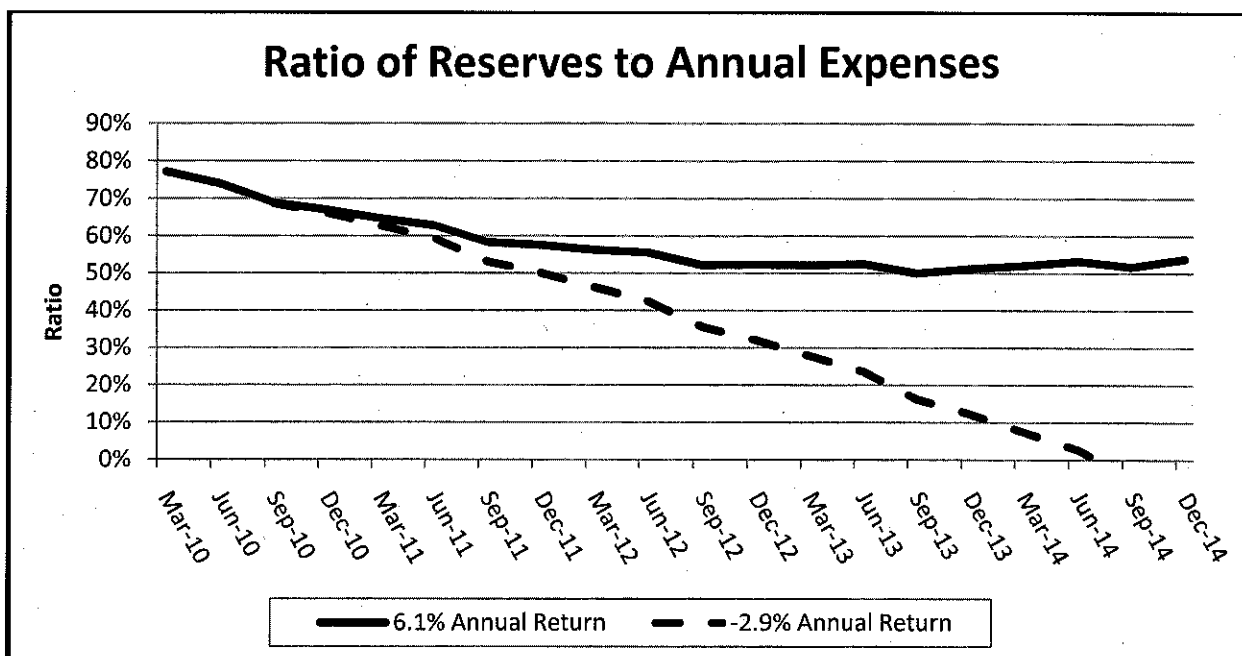
Board	Mtg Date	Item #
DC	11.16.10	7

The Board's goal for the administrative account has been to maintain an account balance equal to fifty percent (50%) of projected annual operating expenses. This balance assures that funds will be available to pay expenses when due, and provides a cushion against reduced participant fees and investment provider reimbursements that would occur during a market downturn. At 74%, the account balance as of June 30, 2010, exceeds that target.

The plan's two primary sources of revenue, participant fees and investment provider reimbursements, are both closely correlated to plan assets. The market decline in 2008 reduced plan assets below the level needed to generate the revenues needed to fund plan expenses. Despite a strong market rebound in 2009, disappointing performance in the first half of 2010 leaves plan assets below 2007 levels and still unable to generate adequate revenues for plan expenses.

Our projections show that an average annual equity investment return of 6.1% will be needed to grow plan assets to the level required to maintain the reserve balance above the fifty percent (50%) target over the next five years. If equity returns average less than 6.1% over the long term, the reserve balance will drop below the Board's target level, and a participant fee increase may be required in the future.

An average annual equity investment return of -2.9% would lower the reserve balance near the 50% target by the end of 2011 and totally exhaust the reserve by mid-2014. By 2012 the board would need to consider a participant fee increase to stabilize the reserve fund.



Based on the current reserves in the Board's administrative account, no action is necessary at this time. While complete plan financial data available subsequent to June 30, 2010, is not yet available to staff for analysis, overall market returns have been very favorable during this period, making it unlikely that a participant fee increase will be required in the next year.

The next scheduled review of participant fees will be at the May 2011 Board meeting. I will be available at the November 16, 2010, meeting to answer any questions you may have.